

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE EAST PENDLETON)	
WATER DISTRICT FOR AN ADJUSTMENT OF)	CASE NO.
RATES PURSUANT TO THE ALTERNATIVE RATE)	97-243
FILING PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On May 7, 1997, the East Pendleton Water District ("East Pendleton") submitted an application for an increase in sewer rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities. East Pendleton's proposed rates would produce additional annual sewer revenues of \$5,579, an increase of approximately 256 percent over Commission Staff's ("Staff") normalized test period sewer revenues of \$2,178.

Staff conducted a limited review of East Pendleton's test-period financial records and issued its report on December 5, 1997. In its report, Staff recommended East Pendleton's proposed rates be denied because they would produce a negative cash flow of \$7,223. To eliminate the Sewer Division's negative cash flow, Staff recommended that the revenues from sewer rates be increased by \$12,802; however, based on its recommended pro forma operations and an 88 percent operating ratio, Staff determined that East Pendleton could justify additional revenues from sewer rates of \$16,536.

Because the sewer rates recommended by Staff differ from those previously noticed to customers, Staff directed East Pendleton to re-notice its customers of Staff's recommended sewer rates. If East Pendleton chose to amend its application to reflect

the sewer rates it could justify, Staff recommended East Pendleton be required to notify its customers of the amended sewer rate proposal.

In its December 5, 1997 Order, the Commission requested that all parties submit written comments on the Staff Report within 10 days from the date of the Order or 90 days from the date the application was filed, whichever is later. On December 11, 1997 East Pendleton submitted a request for an informal conference to discuss the Staff Report recommendations, which was subsequently held on February 17, 1998.

East Pendleton filed a motion on February 19, 1998, requesting the Commission approve the break-even rate contained in the Staff Report and allowing the justifiable rate to become effective one year from that date. According to East Pendleton, increasing the sewer rates to the justifiable rate would result in a 794 percent increase, which would place a financial hardship on its ratepayers. The gradual phase-in of the sewer rates would lessen the financial impact and allow the ratepayers to adjust to the tremendous changes in the sewer rates.

The Commission, after considering the evidence of record and being otherwise sufficiently advised, finds that East Pendleton's proposed plan to gradually increase its sewer rates over one year is reasonable and therefore should be accepted. It further finds that East Pendleton's proposed plan will allow sufficient revenues for East Pendleton to meet its operating expenses, and provide for future equity growth, including provisions for servicing its debt.

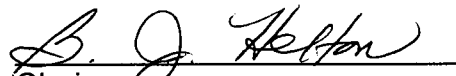
IT IS THEREFORE ORDERED that:

1. The recommendations and findings contained in the Staff Report are adopted as the Commission's findings and incorporated by reference as if fully set out herein.
2. The rates proposed by East Pendleton are approved for sewer service rendered by East Pendleton on and after the date of this Order until Staff's recommended rates become effective.
3. The rates contained in Appendix A will produce gross annual water revenue of \$14,990 which the Commission has found to be fair, just, and reasonable, and therefore those rates are approved for service rendered by East Pendleton 30 days from the date the sewer customers have received notification of those rates.
4. Within 11 months from the date Staff's recommended rates are effective, East Pendleton shall notify its sewer customers of the justifiable rates and 30 days from that date those rates shall become effective.
5. If the Sewer Division's operating conditions change within the 1 year period (i.e., increased level of customers, etc.) East Pendleton shall inform the Commission of these changes and inform the Commission of the status of placing the justifiable rates into effect.
6. If the Sewer Division's net income is negative in any future year it shall include in its PSC Annual Report for that year a brief description of any unusual events which contributed to the net loss, an explanation of whether its rates are adequate or inadequate, and how it intends to address potentially inadequate rates.

7. Within 30 days of the date of this Order, East Pendleton shall file with the Commission its revised tariffs setting out the rates approved herein.

Done at Frankfort, Kentucky, this 2nd day of March, 1998.

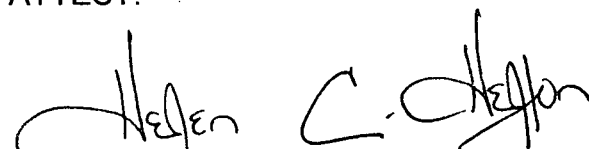
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-243 DATED MARCH 2, 1998

The following rates and charges are prescribed for the customers in the area served by East Pendleton Water District Sewer Division. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Rates

Step One:

The rates in step one were proposed by East Pendleton and are approved for service rendered effective on and after the date of this order:

First	1,000	gallons	\$7.50 Minimum Bill
Over	1,000	gallons	3.14 per 1,000 gallons

Step Two:

Within 30 days following implementation of step one rates, customer notification shall be given for step two rates. Effective 30 days from the date of said notification, the following rates are approved for service:

First	1,000	gallons	\$16.15 Minimum Bill
Over	1,000	gallons	5.73 per 1,000 gallons

Step Three:

Eleven months following implementation of step two rates, customer notification shall be given for step three rates. Effective 30 days from the date of said notification, the following rates are approved for service:

First	1,000	gallons	\$20.18 Minimum Bill
Over	1,000	gallons	7.15 per 1,000 gallons